

POLITICAL PULSE

Infrastructure Was Just the Easy Part

Monday, November 8, 2021

Donald Luskin

Now, for “the tax-hike bill,” too many circles to square. Too many ways to die.

The bipartisan infrastructure bill passed the House Friday night. We predicted on Wednesday that it would pass quickly, with Democratic infighting set aside sufficiently to give President Joseph R. Biden, Jr. a victory after the party’s poor showing in Tuesday’s off-year elections (see [“On the GOP Virginia Sweep”](#) November 3, 2021). The bill will likely be signed by Biden this week, in contradiction to his gaffe four months ago in which he said he would not sign it without being able to sign at the same time the Build Back Better bill – also known variously as [“the reconciliation bill,”](#) [“the safety net bill,”](#) [“the spending package,”](#) [“the social spending plan,”](#) [“the human infrastructure bill”](#) or just [“Biden’s agenda”](#) (but somehow never “the tax-hike bill,” which is how markets should think about it). [He said in June, “I’m not signing. Real simple.”](#) But now, [as the least-approved president in the history of approval-polling,](#) *Biden is signing.*

- Six Dem progressives [voted nay](#) – all six members of [“the squad”](#): Bush (MO-01), Bowman (NY-16), Ocasio-Cortez (NY-14), Omar (MN-05), Pressley (MA-17) and Tlaib (MI-13). That’s two more than enough to have killed it.
- But 13 Republicans [voted yea](#), just as [19 GOP senators did](#) in June – exactly what we said would happen if progressives defected (see [“A House Divided Takes on Infrastructure Alone”](#) September 28, 2021): Bacon (NE-02), Fitzpatrick (PA-01), Garbarino (NY-02), Gonzalez (OH-16), Katko (NY-24), Kinzinger (IL-16), Malliotakis (NY-11), McKinley (WV-01), Reed (NY-23), Smith (NJ-04), Upton (MI-06), Van Drew (NJ-02) and Young (AK-AL)
- *This reveals the game theoretic structure we’ve been talking about for six months: progressive Dems in the safest blue districts have to vote nay to demonstrate their hyper-partisanship and leave no room to their left in next year’s primaries; moderate Republicans in purple swing districts have to vote yea to show their bi-partisan bona fides in highly competitive general elections. The opposite is true for moderate Dems and the Build Back Better bill, which is why we’ve been saying for months that it can’t pass the narrowly divided House* (see, among many, [“Video: What you’re not hearing about the death of Biden’s corporate tax hikes”](#) June 21, 2021).
- *With the infrastructure bill enacted, the progressives have surrendered the one hostage they had which might have coerced moderate Dems to vote for BBB. Toxic among GOP voters everywhere. BBB won’t get a single moderate Republican vote – so*

Update to strategic view**US MACRO, US BONDS:**

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all it will take is four Democratic nays to kill it. [Polls show it's toxic among Dem voters in swing districts, too, so now without even the infrastructure bill as a lure, it's sure to fail.](#)

- Yes, yes, we know that on Friday night [a unanimous Democratic caucus in the House voted](#) to consider BBB. But that's just an agreement to *consider* it – to debate it on the floor, not to pass it. That was a concession to the progressives in order to get no more than six of them to vote against the infrastructure bill – that is, to trick them into releasing their hostage.
- And yes, yes, we know that Dem Joshua Gottheimer (NJ-05) – the informal leader of the loose coalition of moderates that has been threatening to block BBB (see [“Tax Hikes: The House Has Many Manchins”](#) September 8, 2021) – promised they would vote yea provided that the Congressional Budget Office scoring of the bill shows that it is fully “paid for” (see the reproduction of the actual text below).

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...of deductibility of state and local taxes. That's too many ways to die. The infrastructure bill involves too little spending to be noticeably stimulative, and there are effectively no new taxes. We predict BBB will continue to shrink and will ultimately fail.

[\[Strategy dashboard\]](#)

“We commit to voting for the Build Back Better Act, in its current form other than technical changes, as expeditiously as we receive fiscal information from the Congressional Budget Office – but in no event later than the week of November 15th – consistent with the topline for revenues and investments in the “White House Preliminary Budgetary Estimate of the Build Back Better Act” document presented to the Democratic Caucus on November 4, 2021 by the White House. Further, in the event the fiscal information received from the Congressional Budget Office is inconsistent with the “White House Preliminary Budgetary Estimate of the Build Back Better Act” document, we remain committed to working to resolve any discrepancies in order to pass the Build Back Better legislation.”

- Good luck with that – the well-respected Wharton School of the University of Pennsylvania’s [scoring model has already shown that it is not](#), and wildly not if accounting gimmicks are stripped out. That was enough to make Dem senator Joseph Manchin III (WV) [bitingly disavow](#) a [deal he had supposedly made](#) with the White House. Even the progressive-leaning [New York Times admitted last week](#), in the headline of a story no less (no need here for our Ninth Paragraph Rule), that “In Spending Bill, Democrats Rely on Budget Gimmicks They Once Derided.” [So you could drive a truck through the loopholes in the moderates’ promise.](#)
- Beyond this, the top-lines in the White House estimates don’t include new paid-leave expenses that add to the costs, nor higher caps on the deductibility of state and local taxes that subtract from

the revenues – both of which were added at the last moment in the frantic negotiations of the past several days.

- SALT relief is a particular obsession with Gottheimer – [it means a lot to his constituents in high-tax New Jersey](#). But to keep BBB “paid for” [when SALT relief is slotted in, some other controversial form of tax-hike](#) (please see the tweet at left) [has to be put in to compensate \(which will break someone else’s rice bowl\).](#) [It’s also an obsession with Senate Budget chair Bernard Sanders \(D-VT\) – who opposes it as a giveaway to the rich](#) (please see the tweet at right).



Spike Cohen 
@RealSpikeCohen

Therapist: are the unrealized capital gains in the room with us now, Janet?



Bernie Sanders  @SenSa... 3d

As a result, the top 1% would pay lower taxes after passage of the Build Back Better plan than they did after the Trump tax cut in 2017. This is beyond unacceptable.

- Indeed, that's only one of many dimensions of a House version of BBB that will have to get through the Senate – where unlike the infrastructure bill that already passed with 19 GOP votes, it hasn't even been taken up for debate. Sanders on the left and Manchin and Kyrsten Sinema (D-NV) on the right, and dozens of others everywhere in between, will disfigure it beyond recognition. Assuming the *House* can even pass it in the first place (which we doubt), and assuming that the *Senate* subsequently passes its own highly modified version (we doubt that will pass, either), it would then have to go to a *joint committee* for reconciliation (not “reconciliation” in the sense of a vote that avoids filibuster, but in the sense of “reconciling” two widely different bills between the Senate and the House). If that committee can agree on anything (which we doubt), *both chambers would have to pass the reconciled version, without a single Democratic defection in the Senate and with no more than three in the House* (which we doubt: remember, the Dem moderates only committed to passing it “in its current form” – again, see the text on the previous page). *That's just too many circles to square, too many ways to die.*

We don't think the infrastructure bill, now that it has passed, is market-significant.

- [It enables only \\$525 billion](#) of new spending, spread evenly over ten years. It's almost unbelievable, but at this point the grand scheme of things has gotten so grand we think \$52.5 billion a year of new debt-financed government spending is *too little to either be noticeably stimulative, or to put undue pressure on credit markets.*
- Will lots of wonderful positive net-present-value projects now be undertaken? Will you get a new airport in your town? Will that pothole on your street get filled? Well, probably not...
- At least the bill entails substantially no new taxes. A notable exception may be [estimated revenues of \\$28 billion](#) over a decade from taxes on short-term capital gains generated by mandatory reporting of large cryptocurrency transactions which, without being reported, had gone effectively untaxed.

Build Back Better, on the other hand, could be very significant because of its potentially very large tax increases on firms and individuals. In the White House's latest estimate, it entails tax hikes of \$2.1 trillion over ten years. \$810 billion of that would come from corporations, which we estimate would reduce S&P 500 net income by about 4% next year (just as a first-order effect, without considering its follow-on effects on wages and capital expenditures).

- But that's been a very rapidly moving target. As bad as it would be, it's been reduced by more than half from what Biden proposed in March when he introduced the [American Jobs Plan](#), and Treasury Secretary Yellen introduced the [Made in America Tax Plan](#) to pay for it – with about \$2 trillion in new taxes (see [“Video: What you're not hearing about the incredible shrinking Build Back Better agenda”](#) October 28, 2021).

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- *We think the shrinkage of the potential anti-growth impact of BBB has just begun.* To be sure, as we predicted, the shock to Democrats of last Tuesday's elections was enough to make the progressives in the House stop blocking the infrastructure bill that most Americans favor, especially those in swing districts, in order to show that the Democratic party *can get something done.* Yes, there are Democrats who sound like *they want to brazen through Tuesday's disappointment by pushing ahead with unpopular initiatives like BBB.* But *even Biden says* "I'm not sure." Nevertheless the spokespeople for progressives in safe districts *have* to say that. But they won't decide whether BBB will be passed – it's the moderates who knew, even before Tuesday, that they faced the races of their lives a year from now in the mid-terms.
- *All it takes is four of them to decide not to commit career suicide by voting for BBB.*
- *Despite the talking points abounding over the weekend that the Democratic party has just proved it can be coordinated and effective, we continue to bet that BBB will never happen.*

Bottom line

The bipartisan infrastructure bill passed the House Friday night with enough progressive Democrats voting nay to kill it, but with more than enough Republicans voting yea to save it. Dem progressives in safe districts need to act hyper-partisan to protect themselves in next year's primaries, while GOP moderates need to show bipartisanship to protect themselves in next year's generals. The opposite game theory applies to Build Back Better – the tax-hike bill – where Dem moderates facing highly competitive generals don't dare vote for a bill unpopular in swing districts. Dems unanimously voted to consider, not to pass, BBB on Friday. If they ultimately pass it, which we doubt, it will go to the Senate where, if it can pass at all, it will be substantially changed not just by moderates Manchin and Sinema but also by progressives like Sanders. Then it would have to be negotiated into a single version that the House and Senate could both agree on, including the controversial restoration of deductibility of state and local taxes. That's too many ways to die. The infrastructure bill involves too little spending to be noticeably stimulative, and there are effectively no new taxes. We predict BBB will continue to shrink and will ultimately fail. ▶